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Federal Pell Grants: Implications of Increasing the Maximum Award

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Federal Pell Grants:
Implications of Increasing the Maximum Award

Summary

Every year the maximum Pell Grant award is established during the appropriations process. Debate often ensues during this process about the feasibility of increasing the maximum Pell award. As families continue to confront rising college prices, federal student aid in general, and Pell Grants specifically, become particularly important for needy students. Many researchers and policymakers maintain that the Pell Grant does not keep up with the increasing price of attending college or even with inflation. In light of this, many propose that the annual appropriation for the program should be increased. Policymakers continue to contend with the mounting pressures of rising college prices and the adequacy of the Pell Grant award to offset these expenses.

This report analyzes selected characteristics of Pell recipients and the estimated impact upon these recipients and the costs of the program as the maximum appropriated award is increased. This is followed by a discussion of select legislative proposals to increase the maximum award and the Administration's budget request for FY2006.

Increasing the maximum Pell award by $100, to $4,150, would increase the estimated program costs by approximately $400 million for award year 2005-2006. If the maximum Pell award were increased to $5,800, the estimated amount of aid to students would increase by more than 58% over the estimated amount for a maximum grant of $4,050, to $20.2 billion. Increasing the maximum Pell award also increases the number of eligible participants, both overall and among students in each dependency group.

Closer examination of each dependency group reveals that an increase in the maximum award would change the representation of each dependency group within the population of Pell Grant recipients. As the maximum Pell award increases, the percentage of dependent recipients and independent recipients without dependents increases slightly. Dependent recipients represent less than 40% of all recipients under current law; the percentage would increase to an estimated 41.7% if the maximum award were increased to $5,800. Conversely, independent recipients with dependents would decrease from 41.8% to approximately 39% if the maximum award were increased to $5,800.

Finally, the analysis reveals that an increase in the appropriated maximum Pell Grant greatly increases the amount of the average Pell award for the lowest-income recipients in each dependency group. Recipients in the lowest family income group would have the largest average Pell award under each selected increase in the maximum Pell Grant.

This report will be updated as warranted by major legislation or other relevant developments.

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Introduction

Every year the maximum Pell Grant award is established during the appropriations process. Debate often ensues during this process about the feasibility of increasing the maximum Pell award. As families continue to confront rising college prices, federal student aid in general, and Pell Grants specifically, become particularly important for needy students. During the past few years there has been a steady increase in college prices, without a comparable increase in income for low-income families.[1]

Many researchers and policymakers maintain that the Pell Grant does not keep up with the increasing price of attending college or even with inflation. It is estimated that the price of tuition, fees, room and board, has increased by approximately $500 per year, since 2000-2001 to the present, at four-year public institutions, whereas the maximum appropriated Pell Grant has increased by a total of $300 since FY2001.[2] In light of this, many propose that the annual appropriation for the program should be increased. At the same time, there are perennial, and possibly increasing, constraints on the availability of funds to pay for large increases in Pell Grant appropriations.

Policymakers continue to contend with the mounting pressures of rising college prices, and the adequacy of the Pell Grant award to offset these expenses. However, it is estimated that a $100 increase in the maximum appropriated award increases the total costs of the program by as much as $400 million.[3] This report models different scenarios involving increases to the maximum Pell award to examine the effects upon the number of recipients and the amount of student aid awarded. Specifically, the following questions are examined:

- How much would certain increases in the appropriated maximum Pell Grant cost?

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[1] See CRS Report RL32100, *College Costs and Prices: Background and Issues for Reauthorization of the Higher Education Act*, by Rebecca Skinner.

[2] See College Board, *Trends in College Pricing 2004*. Available at [http://www.collegeboard.com/prod_downloads/press/cost04/041264TrendsPricing2004_FINAL.pdf].

[3] This estimate is limited to increases that occur during Pell award year 2005-2006. For additional information, see Department of Education, *Fiscal Year 2005 Justifications of Appropriation Estimates to the Congress*, vol. 2, p. N-27.

- Does a consistent pattern develop (e.g., an award increase of $100 raises program costs by $400 million)?
- What are the implications for the recipients (e.g., independent students versus dependent students, family income below $10,000 versus above $60,000)?
- How would the average Pell Grant award change under different scenarios?
- Which group would benefit most from increasing the appropriated maximum Pell Grant?

During the reauthorization of the Higher Education Act (HEA), the Congress is likely to debate what changes may be needed in the Pell Grant program. It is expected that the answers that emerge from this analysis will help to inform the policymaking process.

This report provides a brief background on the Pell Grant program and the related appropriations process. The report also analyzes selected characteristics of Pell recipients and the estimated impact upon these recipients and the costs of the program as the maximum appropriated award is increased. This is followed by a discussion of selected legislative proposals to increase the maximum award and the Administration's budget request for FY2006.

Background

Pell Grants (Pell) are the largest single source of federal grant aid to postsecondary students. Pell Grants are need-based aid, and are intended to function as the foundation of all student aid for needy, undergraduate students. Pell Grants are considered to be the foundation of student aid because other federal aid (e.g., federal work study, student loans) is calculated after the amount of the Pell award is determined. The program provides several billion dollars annually to millions of undergraduate students. The FY2005 appropriation for Pell is $12.3 billion, and it is projected to provide grants to 5.3 million recipients.

Each year during the appropriations process, significant debate occurs regarding the difference between the appropriated maximum Pell award and the authorized maximum Pell award,[4] and the ability of the grant to offset the price of attending college. The authorized maximum Pell award is the amount that is specified in the HEA. The appropriated maximum Pell award is set in the annual appropriations legislation for the Department of Education. The appropriated maximum Pell award overrides the authorized maximum Pell award. Federal funding is appropriated annually to ensure that all eligible applicants, who apply for federal aid, and attend an eligible postsecondary institution, receive a Pell Grant. Because the program is

[4] The most recent authorized (FY2003) maximum Pell award is $5,800, and the appropriated maximum award for FY2005 is $4,050.

forward funded,[5] if the costs of the Pell Grant program exceed the current fiscal year's appropriation, which is likely if the estimates are incorrect (e.g., there is a greater increase of eligible applicants than expected), or the appropriated amount is lower than what is needed to cover the estimated amount of student aid for a particular award year, the Department of Education (ED) is allowed to use appropriated monies from the next fiscal year to cover the costs of the current award year. This process of ensuring that grant payments will be made, irrespective of the amount of funds appropriated for a particular fiscal year, has led some to depict the program as a "quasi entitlement" program.

The maximum Pell Grant that can be awarded is specified in the annual appropriations legislation for ED. In addition, the minimum Pell Grant that can be awarded — currently $400 — is specified in the program statute. For additional information about the Pell Grant program see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*.

Data Analysis

The analyses presented in this report use estimated data derived by CRS from the Pell Grant estimation model, developed and maintained by the U.S. Department of Education's Budget Service. ED bases its budget requests on the results from this model. The U2005B version of the model was used for the analyses presented.[6] The estimated costs and the number and characteristics of recipients included in this report are provided to suggest the relative magnitude and nature of the impact of possible changes in the Pell Grant program. The numbers and characteristics presented are not official program cost estimates. The report utilizes Pell data for award year 2005-2006.[7]

The family income categories used in the analyses presented were constructed based on income categories used by the National Postsecondary Student Aid Study (NPSAS) for studying federal student aid recipients by dependency status and family income, and the Pell estimation model. NPSAS income categories were chosen because they separate recipients by dependency status (dependent and independent recipients), and because they closely approximate the results produced by the Pell model. The format of the income groupings generated by the Pell estimation model is pre-established and as a result constrains the possible income groupings.

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[5] For additional information regarding federal, forward-funded programs, see CRS Report RL32303, *Appropriations for FY2005: Labor, Health and Human Services and Education*, by Paul M. Irwin.

[6] The Office of Management and Budget Mid-Session Review economic assumptions are used in this version of the model.

[7] The Pell award year 2005-2006 begins July 1, 2005 and ends on June 30, 2006.

Federal Need Analysis

Need analysis is a complex system that is used to allocate billions of dollars of federal student aid under Title IV of the HEA. It entails gathering financial data, which is provided by the student via the Free Application for Federal Student Aid (FAFSA), using these data to calculate the expected family contribution (EFC), and packaging of the applicant's financial aid award by the higher education institution's financial aid administrator.

This section provides a brief description of the EFC and how it is calculated. It also discusses need analysis and its interaction with the Pell Grant. This description is very generic. For detailed information regarding the EFC calculation and the FAFSA, ED has posted descriptions for recent years.[8]

Expected Family Contribution

The expected family contribution (EFC) is the amount that the federal need analysis system determines a family is expected to contribute toward postsecondary education expenses. In calculating the EFC, consideration is given to available income, and for some families, available assets. In addition, living expenses, retirement needs, and federal and state tax liability are also considered.

The calculation of the EFC varies depending upon the applicant's dependency status. There are three separate dependency classifications for individual applicants: dependent student, independent student with dependents, and independent student without dependents. This is important because parental financial information is *not* considered if the applicant meets the statutory definition of an *independent student*. To be classified as statutorily independent (Title IV, Section 480(d)), an applicant must meet one of the following conditions:

- 24 years of age or older;
- married;
- enrolled in a graduate or professional program;
- have a dependent other than a spouse;
- orphan or ward of the court (or was up until age 18); or
- a military veteran.

Students who do not meet any of the aforementioned conditions are considered to be dependent for the purposes of Title IV student aid.

The amount of federal student aid awarded is primarily dependent upon a student's EFC and the cost of attendance (COA) of the postsecondary institution that the student chooses to attend — this is true for all federal student aid programs **except** for the Pell Grant program (to be discussed). The COA is a measure of a

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[8] For specific information regarding the expected family contribution calculation see [http://www.ifap.ed.gov/IFAPWebApp/currentEFCInformationPag.jsp]. In addition, see CRS Report RL32083, *Federal Student Aid Need Analysis: Background and Selected Simplification Issues*, by Adam Stoll and James B. Stedman.

student's education-related expenses, and is determined by each higher education institution. In general, the COA is the sum of tuition and fees; an allowance for books, supplies, transportation, and miscellaneous personal expenses; and a room and board allowance.[9] After the aid administrator determines a student's eligibility for student aid (e.g., federal, state and institutional grants and loans), the final outcome is the financial aid award, which consists of the specific sources and amounts of student aid each applicant will receive to help pay for his/her education-related expenses.

EFC and Pell. The primary Pell Grant award rule is that a student's annual grant is the *least* of three different amounts:

- maximum appropriated Pell Grant minus EFC;
- COA minus EFC;[10] or
- the tuition sensitivity amount.[11]

For nearly all Pell recipients, the Pell Grant award is calculated by subtracting the EFC from the maximum appropriated Pell Grant for the year (i.e., without regard for the COA). This is because the maximum Pell Grant minus the recipient's EFC is almost always lower than the COA minus the EFC. The other two parts of the award rule are likely to apply only in relatively infrequent situations — when COA falls below the appropriated maximum Pell Grant or when tuition is less than $675, and other conditions apply. As discussed, by law, a Pell Grant award cannot be less than $400. For those students whose Pell Grant would be between $200 and $400, the law provides a $400 grant, otherwise known as "the bump." A student who qualifies for less than a $200 grant will not receive a Pell Grant.[12]

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[9] It can also include an allowance for dependent care expenses (for students with dependents); costs associated with study abroad programs for students engaged in such programs; expenses associated with a disability for students with disabilities; and the costs associated with employment under a cooperative education program.

[10] The HEA prohibits the Pell Grant from exceeding the difference between the COA and the EFC. This precludes the awarding of a Pell Grant in excess of what a student might need to cover COA after taking EFC into account.

[11] As implemented by ED, tuition sensitivity reduces the Pell Grant received by a small number of the poorest students attending institutions with very low tuition charges. For FY2005, the only students whose Pell Grant may possibly be reduced under tuition sensitivity are those students whose tuition charges (and any allowances for dependent care or disability related expenses) are less than $675; whose EFCs are $700 or less; and whose total COA is $3,400 or higher. These conditions are delineated in the 2005-2006 Pell Grant payment and disbursement tables, which are available on the web at [http://www.ifap.ed.gov/dpcletters/attachments/2005payschedrev.pdf].

[12] For additional information about the EFC and the Pell Grant, see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

Estimated Impact of Increasing the Appropriated Maximum Pell Grant

This section analyzes the impact of raising the appropriated maximum Pell Grant award by $100, $500 and $1,750; thereby increasing the appropriated maximum award to $4,150, $4,550 and $5,800 respectively. These amounts were selected in light of recent proposals to increase the maximum Pell award by the above-mentioned amounts. Specifically, the Administration recently proposed increasing the maximum Pell award by $100, every year, for the next five years, which would increase the maximum award to $4,550 at end of the fifth year.[13] The $5,800 maximum Pell Grant amount was included in the analysis because this is the most recent authorized maximum grant, and some Members of Congress believe funds should be appropriated to equal this amount.[14] These three amounts provide a range of relatively small, medium, and large increases in the maximum Pell Grant.

In the following sections, this report analyzes selected changes in the number of recipients by dependency status and family income level. It further analyzes the changes in program costs for each of the three maximum award scenarios. As previously stated, these estimates are intended to illustrate the relative magnitude and nature of proposed changes, and are **not** intended to serve as official cost estimates for the Pell Grant program.

How Much Will Student Aid Increase?

ED estimates that for award year 2005-2006, with an appropriated maximum Pell Grant of $4,050, the total amount of aid provided for Pell Grant recipients would be approximately $12.8 billion.[15] As is illustrated by **Table 1**, if the appropriated maximum Pell Grant were increased by $100 to $4,150, the estimated total amount of aid available would increase to $13.1 billion, a 3.2% increase over the amount of student aid available under current law. The total estimated amount of Pell aid would greatly increase if the appropriated maximum award were raised to $4,550 or $5,800. For example, the estimated amount of Pell Grant aid to students would increase by more than 58%, for a total of $20.2 billion if the maximum appropriated award were increased from $4,050 to $5,800.

Table 1 shows that an increase in the maximum Pell Grant generally means more aid for all students eligible for assistance. **Table 1** also shows the breakdown of the estimated increase of Pell Grant aid to students by dependency status. In each

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[13] See, for example, Stephen Burd, "President Bush Calls for Increase in Pell Grants," *Chronicle of Higher Education*, Jan. 28, 2005; Elizabeth Guerard, "President's FY2006 Budget Retires Pell Grant Shortfall, Eliminates Federal Role in Perkins Loan Program," National Association of Student Financial Aid Administrators, Feb. 8, 2005.

[14] For example, H.Res. 132 was introduced on Mar. 1, 2005, by Rep. David Wu. The resolution expressed the sense of the House that the appropriated maximum award should be increased to $5,800 (most recent authorized maximum Pell Grant).

[15] Department of Education, *Fiscal Year 2005 Justifications of Appropriation Estimates to the Congress*, vol. 2, p. N-28.

scenario, dependent recipients would receive a greater percentage increase over current law than either of the two independent groups. For example, increasing the maximum Pell Grant from $4,050 to $5,800 would produce a 65% increase in the amount of Pell aid for dependent students. Independent recipients with dependents and independent recipients without dependents would receive 51% and 61% increases, respectively, over the amount of Pell Grant aid awarded to each group under current law.

A Pattern Develops. **Table 1** also generally validates ED's rule regarding an increase in the appropriated maximum award; a $100 increase in the maximum award would increase the program costs by approximately $400 million. However, it should be noted that the rule becomes somewhat less accurate as the amount of the appropriated maximum Pell Grant increases. For example, if the maximum Pell award were increased by $100, to $4,150, the amount of aid awarded would increase by approximately $408 million. Similarly, if the appropriated maximum award were increased to $4,550, a $500 increase over the current maximum award, the estimated amount of aid would increase by approximately $2.1 billion (or slightly more than five times $400 million). However, if the appropriated maximum grant were increased to equal the most recent authorized maximum ($5,800), or a $1,750 increase, the estimated amount of aid awarded to recipients would increase by approximately $7.5 billion versus the $7.0 billion produced by ED's rule (approximately 18.7 times $400 million).

Table 1. Estimated Amount of Pell Grant Aid to Recipients for Award Year 2005-2006 by Dependency Status and Selected Increases in the Maximum Appropriated Pell Award

(dollars in thousands)

Category of recipients by dependency status	Current law ($4,050)	$4,150 Maximum Pell award	Difference between $4,150 maximum award and current law	% increase over current law	$4,550 Maximum Pell award	Difference between $4,550 maximum award and current law	% increase over current law	$5,800 Maximum Pell award	Difference between $5,800 maximum award and current law	% increase over current law
Dependents	$5,266,462	$5,448,035	$181,573	3.4%	$6,194,849	$928,387	17.6%	$8,705,930	$3,439,468	65.3%
Independents with dependents	$5,188,324	$5,338,187	$149,863	2.9%	$5,942,985	$754,661	14.1%	$7,843,472	$2,655,148	51.2%
Independents without dependents	$2,308,846	$2,385,051	$76,205	3.3%	$2,696,623	$387,777	16.3%	$3,722,992	$1,414,146	61.2%
Total	$12,763,632	$13,171,273	$407,641	3.2%	$14,834,457	$2,070,825	15.7%	$20,272,394	$7,508,762	58.8%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Note: All dollar estimates were rounded to the nearest $1,000. Percentages rounded to the nearest one-tenth percent.

** Aid to students is only the amount of the appropriation that is designated for grants to students. This amount does not include any administrative costs.

Recipient Changes

As the appropriated maximum Pell award increases, it is estimated that more recipients would become eligible for a Pell Grant. As illustrated in **Table 2**, each increase in the appropriated maximum Pell award would usher more recipients into the program. Each of the three increases in the maximum award also increases the number of recipients in each dependency group, with the greatest increase being realized for dependent recipients. For example, an increase from $4,050 to a $5,800 maximum appropriated award would increase the number of dependent recipients by an estimated 18.6% over the number of dependent recipients under current law. Overall, increasing the appropriated maximum Pell Grant from $4,050 to $5,800 increases the total number of recipients by an estimated 11.7%.

Table 2. Estimated Impact of Selected Increases in the Maximum Pell Grant on 2005-2006 Pell Grant Recipients by Dependency Status

(numbers in thousands)

Category of recipients by dependency status	Number of recipients current law ($4,050)	Number of recipients $4,150 maximum Pell award	% increase over current law	Number of recipients $4,550 maximum Pell award	% increase over current law	Number of recipients $5,800 maximum Pell award	% increase over current law
Dependents	2,085	2,111	1.2%	2,210	6.0%	2,473	18.6%
Independents with dependents	2,216	2,223	0.3%	2,251	1.6%	2,307	4.1%
Independents without dependents	1,006	1,015	1.0%	1,053	4.6%	1,146	14.0%
Total	5,307	5,349	0.8%	5,514	3.9%	5,926	11.7%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Note: Percentages rounded to the nearest one-tenth percent.

The increase in the maximum appropriated Pell Grant also changes the representation of each dependency group within the population of all Pell Grant recipients. As indicated in **Table 3**, as the maximum award increases, the percentage of dependent recipients and independent recipients without dependents increases slightly. Dependent recipients represent slightly less than 40% of all recipients under current law; the percentage would increase to an estimated 41.7% if the maximum award were increased to $5,800. Conversely, independent recipients with dependents would decrease from 41.8% to approximately 39% if the maximum award were increased to $5,800.

Table 3. Selected Increases in the Appropriated Maximum Pell Grant: Effect on Composition of Recipients by Dependency Status

(numbers in thousands)

Category of recipients	Current law ($4,050)	% of all recipients	$4,150 max. Pell award	% of all recipients	$4,550 max. Pell award	% of all recipients	$5,800 max. Pell award	% of all recipients
Dependents	2,085	39.3%	2,111	39.5%	2,210	40.1%	2,473	41.7%
Independents with dependents	2,216	41.8%	2,223	41.6%	2,251	40.8%	2,307	38.9%
Independents without dependents	1,006	19.0%	1,015	19.0%	1,053	19.1%	1,146	19.3%
Total	5,307	100%	5,349	100%	5,514	100%	5,926	100%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Note: Percentages rounded to the nearest one-tenth percent. As a result, column entries may not add to column totals shown.

Recipients and Family Income. Because the Pell award is generally the difference between the appropriated maximum award and the expected family contribution, as the maximum award increases, recipients with larger family incomes are ushered into the program.[16]

Dependent Recipients. As illustrated in **Table 4**, the number of recipients in the highest family income group (over $60,000)[17] increases from 23,000 when the maximum Pell award is $4,050, to more than 87,000 recipients if the maximum award were increased to $5,800. Further, recipients with family incomes between $40,001 and $60,000 begin to comprise a larger percentage of all dependent recipients as the maximum award increases. Recipients in this group increase from approximately 13% when the maximum Pell is $4,050 to nearly 20% if the award were increased to $5,800.

Conversely, as the maximum award increases, the number of dependent recipients in the lowest family income group ($20,000 or less) slightly increases, but their percentage of total dependent Pell Grant recipients actually decreases. The percentage of dependent recipients with a family income of $20,000 or less would

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[16] For additional information about calculating the Pell Grant award, see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

[17] The family income reported in all of the tables is the aggregate of earned and unearned income. The income categories in the tables differ for each of the dependency groups because the distribution of income within each group varies. To the extent possible (bound by some constraints in the model) the income categories have been constructed in a manner that reflects the income characteristics of a dependency group and attempts to group families with similar EFC levels together.

decrease from approximately 39% of all dependent Pell recipients with a maximum award of $4,050 to slightly less than 33% if the award were increased to $5,800.

Independent Recipients with Dependents. As shown in **Table 4**, the estimated number of recipients in the highest income group (over $30,000) would increase with each increase in the maximum award. The number of recipients in other income groups were unchanged under each award increase scenario.

Independent Recipients without Dependents. A somewhat similar pattern is also observed among independent recipients without dependents. As illustrated in **Table 4**, the estimated number of Pell recipients in the lowest family income group ($7,500 or less) would not change for each increase in the maximum award. However, the number of recipients in the remaining groups would increase. As a result, if the maximum appropriated Pell award were increased, the recipients from the lowest family income group would comprise a lower share of the total. For example, independent recipients without dependents with the lowest family income represent approximately 54% of all independent recipients without dependents when the maximum Pell award is $4,050, and the percentage would decrease to 47% if the maximum award were increased to $5,800.

Similar to what was observed for dependent recipients, the estimated number of recipients in the highest income group (over $25,000) while remaining relatively small, nearly triples if the maximum award increases from $4,050 to $5,800. Recipients in the $10,001 to $25,000 family income group increase by the greatest numbers.

Table 4. Estimated Percentage Change of Pell Grant Recipients with Selected Appropriated Maximum Awards

Category of recipients by dependency and family income	Number of recipients at $4,050 maximum Pell	% of all recipients	Number of recipients at $4,150 maximum Pell	% of all recipients	Number of recipients at $4,550 maximum Pell	% of all recipients	Number of recipients at $5,800 maximum Pell	% of all recipients
Dependent								
$20,000 or less	802,000	38.5%	803,000	38.0%	805,000	36.4%	810,000	32.8%
$20,001-$40,000	982,000	47.1%	991,000	46.9%	1,024,000	46.3%	1,094,000	44.2%
$40,001-$60,000	278,000	13.3%	291,000	13.8%	344,000	15.6%	482,000	19.5%
over $60,000	23,000	1.1%	26,000	1.2%	37,000	1.7%	87,000	3.5%
Total	2,085,000	100.0%	2,111,000	100.0%	2,210,000	100.0%	2,473,000	100.0%
Independent with dependents								
$10,000 or less	542,000	24.5%	542,000	24.4%	542,000	24.1%	542,000	23.5%
$10,001-$20,000	601,000	27.1%	601,000	27.0%	601,000	26.7%	601,000	26.1%
$20,001-$30,000	579,000	26.1%	579,000	26.0%	579,000	25.7%	579,000	25.1%
over $30,000	494,000	22.3%	501,000	22.5%	529,000	23.5%	585,000	25.4%
Total	2,216,000	100.0%	2,223,000	100.0%	2,251,000	100%	2,307,000	100.0%
Independent without dependents								
$7,500 or less	540,000	53.7%	540,000	53.2%	540,000	51.3%	540,000	47.1%
$7,501-$10,000	155,000	15.4%	155,000	15.3%	156,000	14.8%	156,000	13.6%
$10,001-$25,000	306,000	30.4%	315,000	31.0%	349,000	33.1%	436,000	38.0%
over $25,000	5,000	0.5%	5,000	0.5%	8,000	0.8%	14,000	1.2%
Total	1,006,000	100.0%	1,015,000	100.0%	1,053,000	100.0%	1,146,000	100.0%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Note: Recipient estimates rounded to the nearest 1,000; percentages rounded to the nearest one-tenth percent. As a result, column entries may not add to column totals shown.

Average Award. The average Pell award increases as the appropriated maximum Pell Grant increases. Recipients in the lowest family income group have the largest average awards under each of the three maximum award scenarios. This is true for each dependency category. Pell Grant recipients with the lowest family incomes — $20,000 or less for dependents, $10,000 or less for independent recipients with dependents and $7,500 or less for independent recipients without dependents — have larger average awards than recipients with higher incomes (see **Table 5**). However, it should be noted that dependent recipients in the lowest family income group have the highest average awards of any group, including both groups of independent recipients in the lowest family income group.

Dependent Recipients. Recipients with the lowest family incomes have the highest average Pell award, among all income groups, in each maximum award scenario. However, with the exception of the highest income group (over $60,000), the average awards of recipients in the lowest income group also increase by the least. The average awards of recipients with family incomes between $20,001 and $40,000, and between $40,001 and $60,000, would increase by the greatest percentage if the maximum award were increased to $5,800. As shown in **Table 5**, the average award for these two groups would increase by 51% and 56% respectively over current law.

Independent Recipients. The average awards for both groups of independent recipients are comparable. Although the average awards for independent recipients without dependents are larger than those for independent recipients with dependents, recipients in both groups with the lowest family incomes — $10,000 or less for independent recipients with dependents and $7,500 or less for independent recipients without dependents — have higher average awards than all other income groups. However, recipients in this group (both with dependents and without dependents) also have the smallest increase in the amount of the average award under each award increase scenario. As illustrated in **Table 5**, if the maximum Pell award were increased to $5,800, the average awards for this group would increase by approximately 43%, whereas the highest income groups increase by 63% (with dependents) and 80% (without dependents).

Table 5. Estimated Impact of an Increase in the Maximum Appropriated Pell Grant by Family Income and Dependency Status

(dollars in thousands)

Category of recipient by family income and dependency status	Estimated amount of Pell aid available at $4,050 maximum Pell Grant	Average Pell award when maximum award at $4,050	Estimated amount of Pell aid available at $4,150 maximum Pell Grant	Average Pell award when maximum award at $4,150	% increase of average award over current law	Estimated amount of Pell aid available at $4,550 maximum Pell Grant	Average Pell award when maximum award at $4,550	% Increase of average award over current law	Estimated amount of Pell aid available at $5,800 maximum Pell Grant	Average Pell award when maximum award at $5,800	% Increase of average award over current law
Dependent											
$20,000 or less	$2,568,948	$3,203	$2,634,281	$3,281	2.4%	$2,895,717	$3,597	12.3%	$3,709,528	$4,580	43.0%
$20,001-$40,000	$2,304,484	$2,347	$2,390,317	$2,412	2.8%	$2,739,442	$2,675	14.0%	$3,874,250	$3,541	50.9%
$40,001-$60,000	$370,864	$1,334	$398,467	$1,369	2.6%	$521,132	$1,515	13.6%	$1,005,695	$2,087	56.4%
over $60,000	$22,166	$964	$24,970	$960	-0.4%	$38,559	$1,042	8.1%	$116,458	$1,339	38.9%
Independent with dependents											
$10,000 or less	$1,489,313	$2,748	$1,526,068	$2,817	2.5%	$1,672,980	$3,087	12.3%	$2,125,289	$3,921	42.7%
$10,001-$20,000	$1,647,718	$2,740	$1,688,479	$2,809	2.5%	$1,851,327	$3,080	12.4%	$2,352,624	$3,915	42.9%
$20,001-$30,000	$1,356,391	$2,342	$1,394,783	$2,408	2.8%	$1,548,277	$2,673	14.1%	$2,022,512	$3,491	49.1%
over $30,000	$694,901	$1,406	$728,857	$1,454	3.4%	$870,336	$1,646	17.1%	$1,343,048	$2,295	63.2%
Independent without dependents											
$7,500 or less	$673,383	$2,990	$1,636,612	$3,066	2.5%	$1,794,967	$3,358	12.3%	$2,285,930	$4,263	42.6%
$7,501-$10,000	$923,599	$2,934	$359,735	$3,006	2.4%	$406,173	$3,300	12.5%	$550,522	$4,212	43.6%
$10,001-$25,000	$578,993	$1,864	$386,161	$1,936	3.9%	$490,464	$2,234	19.9%	$869,422	$3,161	69.6%
over $25,000	$132,872	$855	$2,544	$887	3.7%	$5,020	$1,024	19.8%	$17,119	$1,539	80.0%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Note: Recipient counts rounded to the nearest 1,000; percentages rounded to the nearest one-tenth percent. As a result, column entries may not add to column totals shown.

Who Benefits Most from the Increase? When the appropriated maximum Pell Grant is increased, the estimated number of individuals in the lowest family income group remains about the same, however, the estimated amount of their average award significantly increases. Conversely, as the maximum award increases, the number of individuals in the highest family income group increases, and the average amount of their Pell awards also increases either slightly or significantly depending upon the increase in the maximum award. Nevertheless, average awards remain lower for the relatively high-income group than for the lower-income groups.

Dependent Recipients. **Figure 1** illustrates this relationship for dependent recipients. As noted, recipients in the lowest-income group (less than $20,000), would receive the largest increase in award dollars, if the maximum award were increased from $4,050 to $5,800. However, dependent recipients with family incomes between $40,001 and $60,000, would increase their average award by 56% over the amount under current law. This percentage increase is greater than the increase for all other income groups (see **Table 5**).

The difference in the amount of the average Pell award becomes more pronounced for lower-income groups when the appropriated maximum award increases. For example, the average award for a dependent student, with a family income of less than $20,000 would be slightly more than $4,500 if the maximum Pell Grant were $5,800 and approximately $3,200 with a maximum Pell of $4,050 (a difference of approximately $1,300). For a dependent recipient with a family income over $60,000, the difference in the average award when the maximum grant is $5,800 and when it is $4,050 would be approximately $370 ($1,330 average Pell award versus a $960 average Pell award).

Independent Recipients with Dependents. The difference in the amount of the average Pell award among independent recipients with dependents is less extreme. As shown in **Figure 2**, the number of independent recipients with dependents does not significantly increase except for the highest-income group (over $25,000). It is estimated that more than 90,000 recipients in this income group would become eligible for a Pell award if the maximum award were increased from $4,050 to $5,800. Also, the average Pell award for independent recipients with dependents would not greatly differ for each increase in the maximum grant unless the appropriated maximum Pell award were increased to $5,800. If the maximum appropriated Pell award were increased to $5,800, the average award would increase by 43% for both of the two lowest-income groups ($10,000 or less and $10,001 to $20,000), and by 50% and 63% for the two highest income groups respectively ($20,001 to $30,000 and over $30,000) (see **Table 5**).

Independent Recipients Without Dependents. The results for independent recipients without dependents are similar to the results for independent recipients with dependents. **Figure 3** shows that for this group, the estimated number of recipients remains constant for each increase in the Pell maximum, except when the maximum award is $5,800. If the maximum award were increased to $5,800, the number of recipients in the two highest-income groups would increase. For example, approximately 130,000 independent recipients without dependents with family incomes between $10,001 to $25,000 would become eligible for a Pell Grant if the maximum award were increased from $4,050 to $5,800. Further, the average Pell

award for this group would increase by 80% if the maximum Pell Grant were increased from $4,050 to $5,800 (see **Table 5**).

As evidenced by **Figures 1, 2 and 3**, the number of Pell Grant recipients in the lowest family income group remains relatively constant for each dependency group, and for each increase in the maximum appropriated award. Because Pell Grants are targeted towards the neediest students, individuals with the lowest family incomes are likely to already receive a grant. Recipients in this group will generally experience an increase in their Pell award if the maximum award is increased, but the number of recipients in this group would not significantly change. Conversely, if the maximum Pell award were increased, the number of recipients in the highest family income group — in each of the three dependency groups — would increase. In addition, recipients in this group would also have an increase in their average Pell award if the maximum Pell Grant were increased, but the increases would be smaller than those for lower-income recipients.

Figure 1. Estimated Number of Dependent Pell Grant Recipients by Family Income, Appropriated Maximum Pell Grant and Average Pell Award

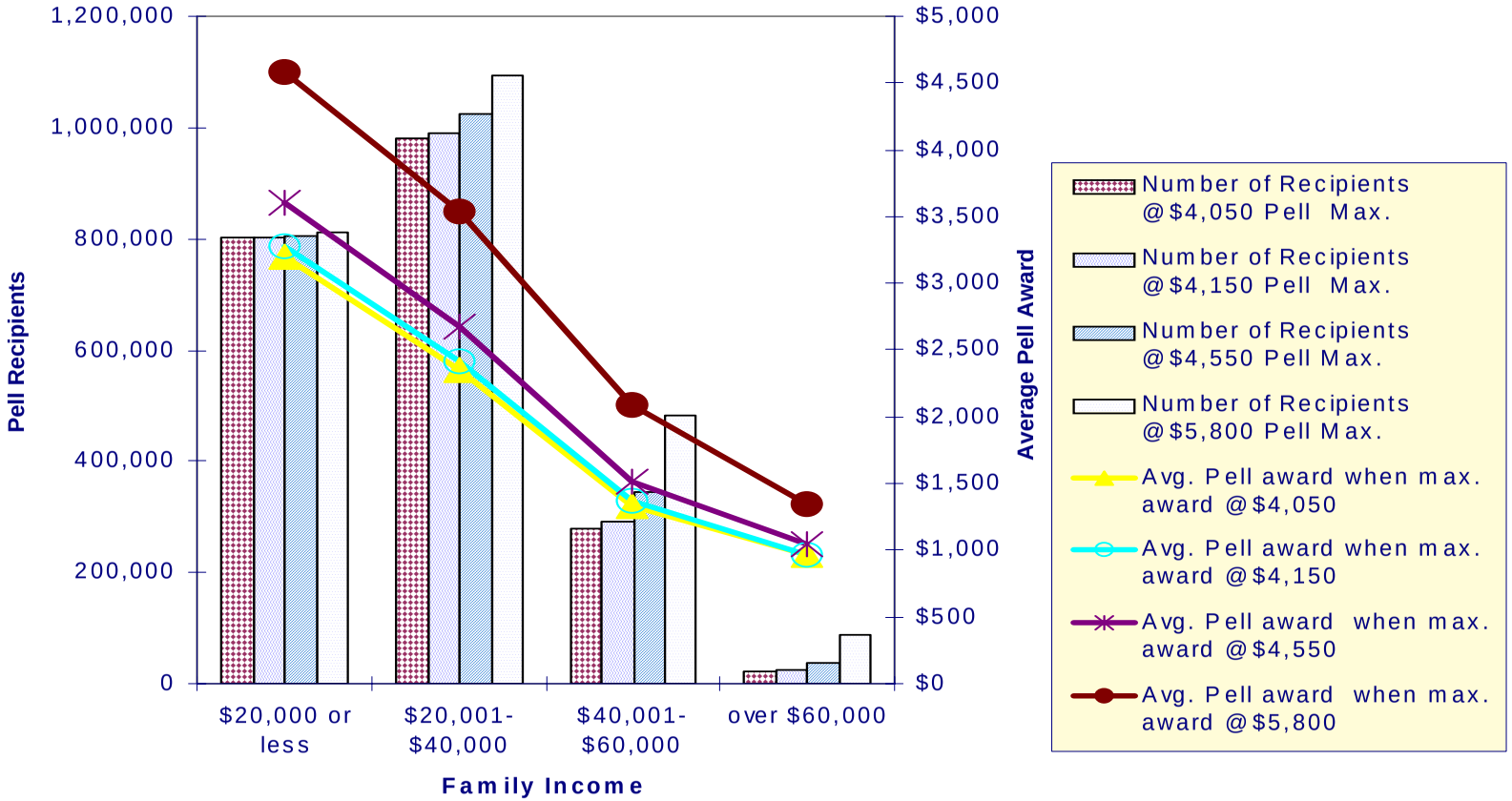


Figure 2. Estimated Number of Independent Pell Grant Recipients with Dependents by Family Income, Appropriated Maximum Pell Grant and Average Pell Award

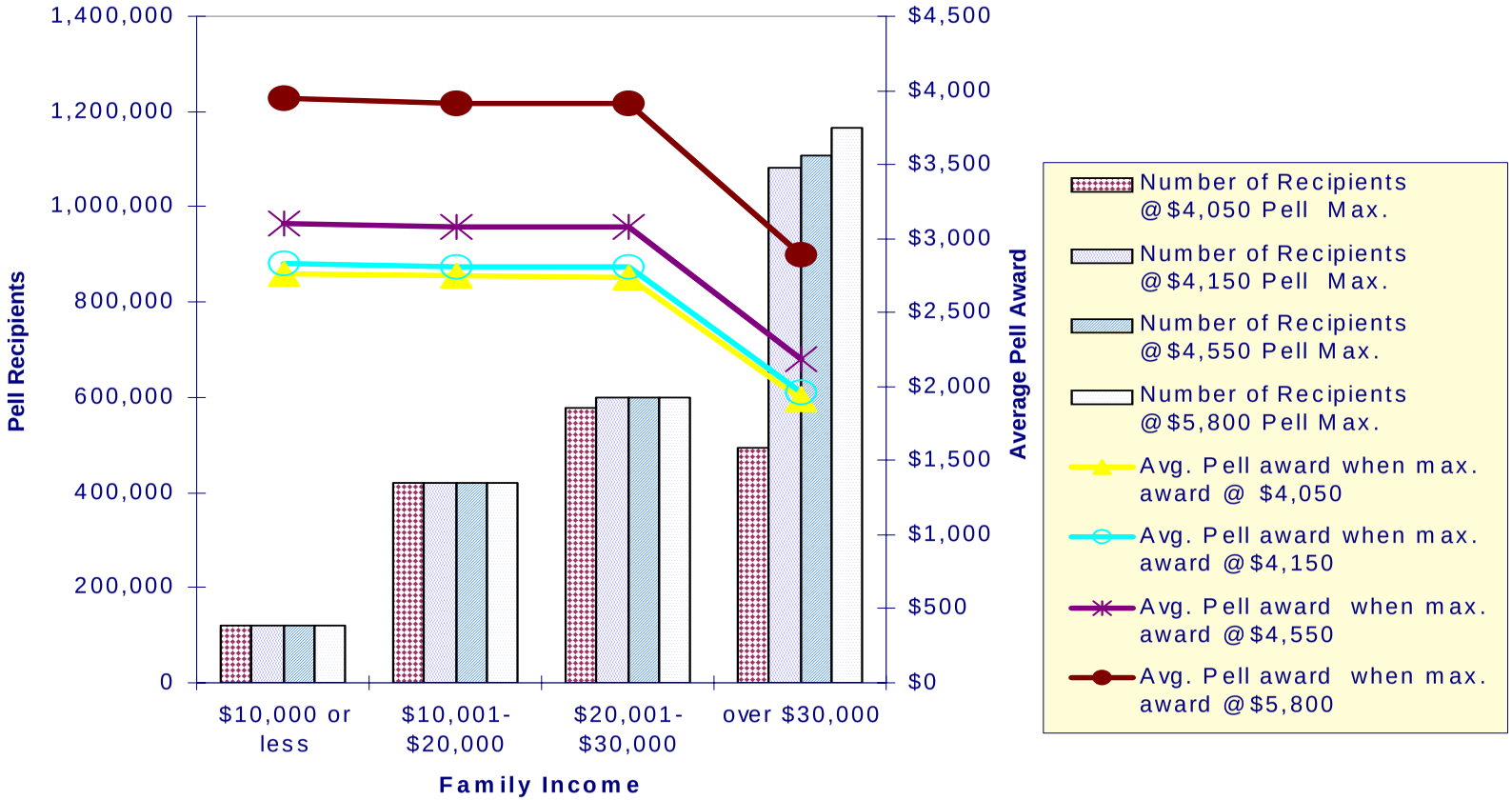
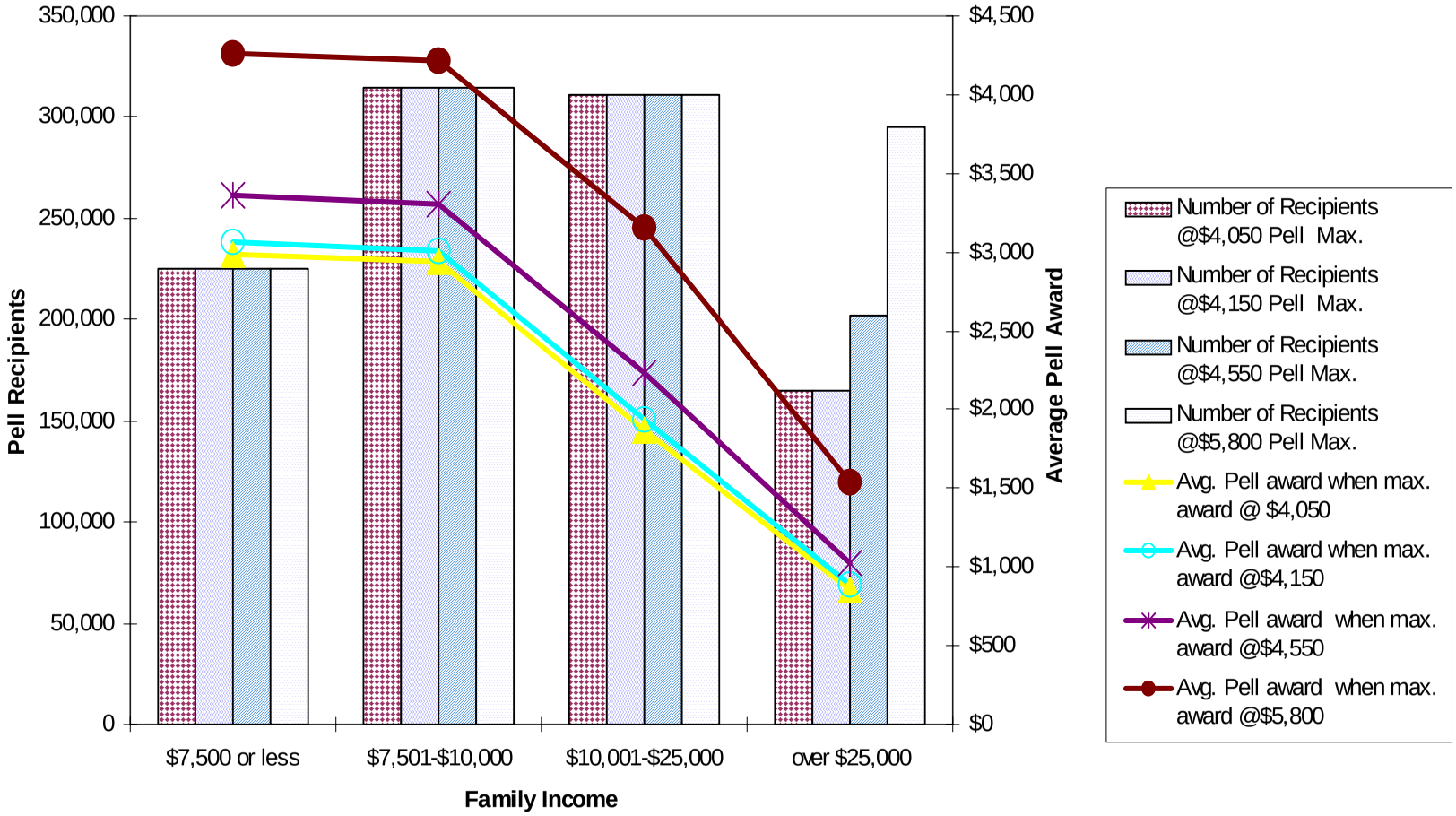


Figure 3. Estimated Number of Independent Pell Grant Recipients without Dependents, by Family Income, Appropriated Maximum Pell Grant and Average Pell Award



Legislative Proposals During the 109th Congress

This section reviews major legislation introduced during the 109th Congress that addresses changing the maximum Pell Grant. While there have been several proposals introduced that pertain to the Pell Grant program, this section is limited to those that relate to increasing either the maximum authorized grant and/or the maximum appropriated award.

S. 286 (**Dodd, et al.**). This bill was introduced on February 3, 2005 and referred to the Senate, Health, Education, Labor and Pensions Committee on the same day. The bill proposes to increase the maximum Pell Grant to $7,600 for award year 2006-2007, and by $1,000 increments until award year 2009-2010, when the maximum award would equal $11,600. It further requires the Secretary of Education to review each increase to determine if the increase in the Pell Grant increases the students' purchasing power at an institution of higher education by at least 5%. If this is not achieved, the maximum award is to be increased to achieve at least a 5% increase in purchasing power.

S. 15 (**Bingaman, et al.**). This bill, entitled "Quality Education for All Act," was introduced on January 24, 2005 and referred to the Senate Finance Committee on the same day. This bill focuses on several education programs and provisions. Among other things, a section of the bill expresses a sense of the Senate[18] that the maximum Pell award should be increased to $5,100 by award year 2006-2007, and that the maximum Pell award set by Congress in the authorizing language should be the amount that eligible students receive.

H.R. 133 (**Keller**). This bill, entitled "To Increase the Maximum Pell Grant," was introduced on January 4, 2005, and referred to the House Subcommittee on 21st Century Competitiveness on February 9, 2005. The bill proposes to increase the maximum Pell award to $6,000 for the 2005-2006 award year.

H.R. 134 (**Kildee, et al.**). This bill, entitled "To Prevent Abuse of the Special Allowance Subsidies under the Federal Family Education Loan Program," was introduced on January 4, 2005, and referred to the House Committee on Education and the Workforce. The bill primarily focuses on the Federal Family Education Loan program, however, if passed, it would require that any savings generated from terminating the allowances specified in Section 483 (b)(2)(B) of the HEA, be used to increase the annual appropriations for Pell.

H.R. 117 (**Holt, et al.**). This bill, entitled "Higher Education Affordability and Fairness Act of 2005," is comparable to the two bills introduced in the Senate (S. 286 and S. 15), and was introduced on January 4, 2005 and referred to the House

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[18] S.Res. 8 was introduced on Jan. 4, 2005, by Sen. Collins, et al. Similar to S. 15, it also expresses the sense of the Senate, but it states that the maximum Pell Grant should be increased to $4,500 for award tear 2005-2006, and that the authorized amount should be, "set high enough to accommodate a Federal Pell Grant amount of $9,000 by award year 2010-2011."

Subcommittee on 21st Century Competitiveness on the same day. Comparable to S. 15, it expresses the sense of the House that the maximum award should be increased to $4,700. It further states, that the grant should be increased to $4,700 to pay approximately 20% of tuition, fees, room and board or tuition and fees of the average public college, which is similar to S. 286.

FY2006 Budget Request

The Administration's FY2006 budget request proposes to increase the appropriated maximum Pell award by $100 beginning in the 2005-2006 award year, and by an additional $100 for the four successive years, for a total Pell award of $4,550 in the 2009-2010 Pell award year. To produce the increase, the Administration proposes to change the funding structure of the Pell Grant program. Under the proposal, part of the funding for the program — the costs of the current maximum award of $4,050, the Enhanced Pell Grants for State Scholars,[19] and several proposed changes intended to improve the program's efficacy[20] — would remain discretionary, approximately $13.2 billion. An additional $4.7 billion in mandatory funding is also being requested. The $4.7 billion is intended to eliminate the program's funding shortfall[21] — currently $4.3 billion — and to increase the appropriated maximum Pell Grant by $100.

Conclusions

It is estimated that the price of tuition, fees, room and board, has increased by approximately $500 per year, since 2000-2001 to the present, at four-year public institutions, whereas the maximum appropriated Pell Grant has increased by a total of $300 since FY2001. Several findings from the preceding analysis appear to be important for federal policymakers as they consider legislative efforts to increase the maximum appropriated Pell Grant. The discussion below identifies some of these findings and their importance for policymaking in this area.

According to these analyses, increasing the maximum Pell award by $100 increases the estimated program costs by approximately $400 million for award year 2005-2006. Further, if the appropriated maximum award were increased to equal the

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[19] The Enhanced Pell Grants for State Scholars would provide an additional $1,000 to a student who completes the State Scholars curriculum in high school. For additional information about the Enhanced Pell Grants for State Scholars and the curriculum, see U.S. Department of Education, *Fiscal Year 2006 Budget Summary*, p. 54.

[20] The administration proposes the following changes to the rules of the Pell Grant program: make grants available year-round, limit Pell Grant eligibility to the equivalent of 16 semesters, eliminate the tuition sensitivity rule, and allow Pell recipients in the military to be classified as independent.

[21] For additional information regarding the Pell Grant program shortfall, see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

most recent authorized maximum of $5,800, the estimated program costs would increase by more than $7.5 billion.

Increasing the maximum Pell award would also increase the number of eligible participants by nearly 12%, while changing somewhat the distribution of participants among dependency groups. More specifically, if the appropriated maximum Pell Grant were increased, the representation of each dependency group would change. Dependent recipients represent slightly less than 40% of all Pell recipients under current law; the percentage would increase to nearly 42% if the maximum award were increased to $5,800. Independent recipients with dependents would witness a decrease in their representation among all Pell recipients if the maximum award were increased. Under current law they make up 42% of all Pell recipients, however, this would decrease to 39% if the maximum award were increased to $5,800.

Closer examination of each dependency group reveals that only recipients with the highest family incomes — over $60,000 for dependent recipients, $20,000 for independent recipients with dependents, and over $13,000 for independent recipients without dependents — would increase their percentage share of all Pell Grant recipients if the maximum award were increased. Within this "high-income" group, the representation would increase by 2.1 percentage points for independent recipients with dependents (48.4% to 50.5%) and by 10.3 percentage points for independent recipients without dependents (15.4% to 25.7%), if the maximum Pell award were increased from $4,050 to $5,800.

Finally, the analysis reveals that an increase in the appropriated maximum Pell Grant greatly increases the amount of the average Pell award for the lowest-income recipients in each dependency group. Recipients with the lowest family incomes would have the largest average Pell award under each selected increase in the maximum Pell Grant. Further, dependent recipients in the lowest-income group would have a higher average Pell award, in each scenario, than both groups of independent recipients with family incomes in the lowest group.

The average Pell award of individuals in the highest family income group would increase by a greater percentage than for recipients in the lowest-income group, even though the amounts of the awards for the former would be lower. Both groups of independent recipients in the highest family income group would experience the greatest percentage increase in their average Pell award if the maximum award were increased from $4,050 to $5,800. Independent recipients with dependents would increase their average award by 51% and the average award for independent recipients without dependents would increase by 80% over the amount of the average award under current law. For dependent recipients, individuals with family incomes in the second to the highest-income group would experience the greatest percentage increase in their average Pell award if the maximum Pell award were increased to $5,800. This group's average award would increase by 56% over the average award under current law.